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1938



**ANNUAL REPORT
JEWEL TEA CO., INC.**



JEWEL TEA CO., INC.
JEWEL PARK, BARRINGTON, ILLINOIS

Directors:

| | |
|---------------------|-----------------|
| HENRY S. BOWERS | F. M. KASCH |
| JOHN M. HANCOCK | C. W. KAYLOR |
| A. VERNON JANNOTTA | E. E. RICHARDS |
| M. H. KARKER | WALTER E. SACHS |
| ROBERT R. UPDEGRAFF | |

Officers:

| |
|--|
| JOHN M. HANCOCK |
| <i>Chairman of the Board of Directors</i> |
| M. H. KARKER |
| <i>President</i> |
| ROBERT HILTON, <i>Vice Pres.—Administration</i> |
| F. M. KASCH, <i>Vice Pres.—Food Stores</i> |
| C. W. KAYLOR, <i>Vice Pres.—Public Relations</i> |
| J. M. FRIEDLANDER, <i>Treasurer</i> |
| A. U. HUNT, <i>Controller</i> |
| F. J. LUNDING, <i>Asst. Secretary</i> |
| T. EDW. DAVIS, <i>Asst. Secretary</i> |

Transfer Agent:

MANUFACTURERS TRUST COMPANY
55 Broad Street, New York City

Registrar:

THE COMMERCIAL NATIONAL BANK & TRUST
COMPANY OF NEW YORK, 56 Wall Street,
New York City

Auditors:

TOUCHE, NIVEN & Co., Certified Public
Accountants, New York and Chicago

*You are always welcome at our head-
quarters office and plant in Jewel Park*

JEWEL TEA CO., INC.

JEWEL PARK

BARRINGTON, ILLINOIS

Barrington, Illinois
February 3, 1939

TO THE STOCKHOLDERS:

The twenty-third annual report of your company, for the fiscal year ended December 31, 1938, is presented herewith.

EARNINGS Net earnings for the year — after provision for taxes, depreciation and reserves — were \$1,423,959.03 or \$5.09 per share on the 280,000 shares of common stock issued and outstanding, compared with \$1,452,119.56 or \$5.19 per share in 1937.

SALES Total sales amounted to \$23,726,533.48 compared with \$23,277,440.93 in 1937, an increase of 1.93%. The number of operating units (1550 wagon routes and 109 retail food stores) was maintained. During the year three routes and three stores were closed and 31 routes were sold; a corresponding number of new units was opened and the cost of starting these was charged to current operations. A distributor contract was executed with each purchaser of the routes previously operated by your company in the metropolitan areas of Cleveland, Milwaukee and Minneapolis-St. Paul, giving him the exclusive right to distribute the regular line of Jewel coffee, groceries and premiums within defined territory. Company sales to such distributors are included in total sales. Your company continues its research and tests in the development of more efficient distribution and new markets.

WORKING CAPITAL Net working capital amounted to \$4,748,740.35 and the ratio of current assets to current liabilities was 4.66 to 1. Marketable securities included the following groups of bonds at market quotations as of December 31, 1938: Federal government obligations \$1,129,074.71, state and municipal bonds \$621,860.39, industrial, public utility and others \$800,591.61. Most bonds are purchased on a yield basis and charges for amortization and write-down to market totaled \$7,502.43 for the year.

Your company had on hand and under contract a total of 106,206 bags of coffee at the end of the year, a stock sufficient to meet roasting needs for approximately 26 weeks.

During the year one of the branch buildings owned by your company and two houses in Jewel Park were sold.

OPERATING EXPENSES Expenses of operation were slightly higher than in 1937, again due largely to increases in taxes and wages.

EMPLOYEE RELATIONS Internal relations among the people of your company were continued on the long standing basis of understanding and confidence throughout the year.

As of February 15, 1938, the employee stock purchase plan first adopted by the Board of Directors on February 9, 1926, was suspended and made inoperative. After many months of work with the Securities and Exchange Commission under the Securities Act of 1933 and the Securities Exchange Act of 1934, it was concluded that the registration requirements were too burdensome to warrant continuing the plan. Contracts outstanding at the time of suspension are being carried to completion but the company is making no further offers for the sale of stock to employees.

On December 24, 1938, a trust instrument creating Jewel Retirement Estates was executed, putting into effect a plan for all employees (except those on the executive payroll) whereby they may build retirement funds for themselves through the medium of regular savings and participation in company profits. Your company made an initial payment of \$80,555.90 from 1938 earnings and beginning with 1939 intends to contribute annually 25% of net earnings in excess of \$3.00 per share on common stock. If earnings in any year fall below \$3.00 per share, the deficiency must be made up in subsequent years before further contributions are made to the funds in trust. A complete copy and explanation of this plan was forwarded to all stockholders on January 20, 1939.

RESERVES Assets have been conservatively valued and reserves have been provided by the application of the same principles in use for many years. The payment by the company in 1937 of \$40,004.84 to Jewel Employees Trust Fund and charged to company expense for the year under the guarantee was refunded to the company in full in 1938 and has been included in earnings. At the end of the year your company's inventories were in favorable position with respect to cost and market values. The company operates on relatively small inventories in hand and with rapid turnover due to the perishable nature of much of its product. 50.16% of the inventory is maintained in the headquarters buildings and inventories in the branches are verified twice a year by identification and physical count. A reserve of \$129,000 has been provided out of earnings for extension of institutional advertising, public relations and sales promotion in 1939.

Federal income taxes were settled by the Bureau of Internal Revenue for the years 1933, 1934 and 1935 and their audits have been made for the years 1936 and 1937. No differences of consequence were developed as a result of these settlements and audits.

TAXES There is continued increase in the cost of taxation and still further increases in the tax rates on business are under discussion by the present Congress. Even so, the tax bill does not yet reflect the full and increasing costs of government because government has been spending more than is currently collected and has borrowed to meet the deficit. It seems certain that taxes will take a larger share of corporate earnings in future years unless stockholders and investors everywhere support the growing sentiment favoring a balanced budget and economy in public expenditure.

The following tabulation shows graphically how your company's tax bill has been affected by the spending policies of federal, state and municipal governments:

TAX COST

| Year | Total | Per Share on 280,000 Shares Issued | Per Annum Per Person Employed |
|------|-----------|---------------------------------------|----------------------------------|
| 1932 | \$248,457 | \$.89 | \$ 87.57 |
| 1933 | 426,897 | 1.52 | 129.23 |
| 1934 | 589,069 | 2.10 | 176.13 |
| 1935 | 676,717 | 2.42 | 201.70 |
| 1936 | 850,605 | 3.04 | 246.52 |
| 1937 | 991,908 | 3.54 | 270.70 |
| 1938 | 1,100,415 | 3.93 | 298.22 |

OFFICERS Robert W. Muir, Secretary, died on November 30, 1938. His death removed a competent and loyal worker whose sincere interest and high professional standards and ability are greatly missed.

SURPLUS Regular dividends at the annual rate of \$4.00 per share and a final dividend for the year of \$1.00 per share were paid in 1938. In the last ten years your company has distributed 85.2% of its earnings in dividends to stockholders and 14.8% has been retained in the operation and protection of the business. The surplus account was closed with a balance of \$2,702,411.98.

The satisfactory final result of operations for the year 1938 was made possible only through the loyal and effective work of Jewel men and women everywhere and is a tribute to the unity and efficiency of the organization.

M. H. KARKER, *President*

For the Board of Directors:

JOHN M. HANCOCK, *Chairman*



JEWEL TE

(A New York

BALANCE

ASSETS

Current Assets:

| | |
|--|------------------|
| Cash on hand, demand and time deposits..... | \$ 1,100,093.57 |
| Marketable securities at cost or market, whichever is lower, and interest (market quotation \$2,551,526.71)..... | 2,530,617.39 |
| Accounts receivable: | |
| Trade customers, less reserve of \$40,397.58 for doubtful accounts.. \$ 184,223.70 | |
| Miscellaneous, less reserve of \$1,481.77 for doubtful accounts..... | <u>35,723.86</u> |
| | 219,947.56 |

Inventories at cost or market, whichever is lower:

| | |
|-------------------------|-------------------|
| Raw materials..... | \$ 768,816.11 |
| Finished groceries..... | 1,153,853.00 |
| Premiums..... | <u>273,749.76</u> |
| | 2,196,418.87 |

\$ 6,047,077.39

Other Assets:

| | |
|---|------------------|
| Common stock in treasury and held for employees, at cost or market, whichever is lower, less payments of \$13,247.48 thereon (4,567 shares of which 376 shares are under contract for sale to employees)..... | \$ 121,555.57 |
| Loans to employees..... | 9,265.26 |
| Cash surrender value of life insurance policies..... | 68,017.50 |
| Miscellaneous investments, deposits and contracts (net), less reserve of \$15,000.00..... | <u>49,648.34</u> |

248,486.67

Jewel Employees Trust Fund Assets:

| | |
|--|------------|
| Investments at cost or market, whichever is lower, and cash (Jewel employees surety and savings deposits, per contra)..... | 490,123.51 |
|--|------------|

Deferred Charges:

| | |
|---|-------------------|
| Premiums (at cost) advanced to customers, less reserve of \$254,385.15 for doubtful accounts..... | \$ 850,667.05 |
| Unexpired insurance, expense supplies, etc..... | <u>161,312.40</u> |

1,011,979.45

Capital Assets:

| | |
|---|---------------------|
| (Appraised as of December 31, 1932, when book values were reduced \$404,537.66 to basis of current values, plus subsequent additions at cost) | |
| Land..... | \$ 474,991.57 |
| Buildings..... | \$ 1,457,123.38 |
| Machinery, furniture and fixtures, at plants..... | 456,295.74 |
| Branch and store equipment..... | <u>1,768,096.18</u> |
| | \$ 3,681,515.30 |
| Less reserve for depreciation..... | <u>1,606,370.90</u> |
| | 2,075,144.40 |
| Good Will | <u>1.00</u> |
| | \$10,347,803.99 |

A CO., INC.

Corporation)

S H E E T

DECEMBER 31, 1938

LIABILITIES

Current Liabilities:

| | |
|---|-----------------|
| Letters of credit and acceptances..... | \$ 91,326.03 |
| Accounts payable, trade..... | 215,641.87 |
| Accrued wages and bonuses..... | 394,695.84 |
| Federal, state and other taxes accrued..... | 574,316.43 |
| Sundry accruals..... | 22,356.87 |
| | <hr/> |
| | \$ 1,298,337.04 |

Liabilities for Real Estate Purchases:

| | |
|--|-----------|
| Lease assumptions and lease adjustments, payable in monthly installments, of which \$10,720.22 is due within one year, and serial first mortgages of \$26,500.00 due in 1941 and 1944..... | 71,433.73 |
|--|-----------|

Jewel Employees Surety and Savings Deposits:

| | |
|--|------------|
| Principal and interest at the rate of 3% per annum guaranteed by Jewel Tea Co., Inc. (Jewel employees trust fund assets, per contra) | 490,123.51 |
|--|------------|

Reserves:

| | |
|--|---------------|
| For contingencies..... | \$ 285,000.00 |
| For automobile accident and other self-insured losses..... | 208,577.06 |
| For alterations, improvement, development and advertising..... | 356,458.33 |
| | <hr/> |
| | 850,035.39 |

Capital Stock and Surplus:

| | |
|---|-----------------------|
| Common stock, no par value: | |
| Authorized..... | 300,000 shares |
| Unissued..... | 20,000 shares |
| Issued and outstanding..... | <u>280,000</u> shares |
| Earned surplus, per annexed statement..... | \$ 4,935,462.34 |
| | 2,702,411.98 |
| | <hr/> |
| Whereof \$121,555.57 represents the cost of 4,567 shares of common stock (after deducting payments of \$13,247.48 received on 376 shares under contract for sale to employees) reacquired for employees and carried as an asset, the market quotation of which is \$322,427.02. | 7,637,874.32 |

Contingent Liabilities:

| | |
|--|---------------------|
| Under contracts for coffee and other commodities not shipped at December 31, 1938..... | <u>\$451,237.80</u> |
|--|---------------------|

\$10,347,803.99

JEWEL TEA CO., INC.

(A New York Corporation)

INCOME AND SURPLUS ACCOUNT

For the Year Ended December 31, 1938

Net Sales (including those of leased departments) \$23,726,533.48

Deduct:

| | |
|---|----------------------|
| Cost of sales — including raw materials, labor, supplies, operating, selling and administrative expenses, and contribution to Jewel Retirement Estates, etc. | \$20,211,767.61 |
| Depreciation — of buildings, machinery, furniture and fixtures, and automobiles..... | 353,959.57 |
| Taxes — federal and state income, franchise, capital stock, excise, social security, sales, use, occupational, gasoline, mileage, occupancy, personal property and real estate taxes, and automobile and business licenses..... | 1,100,415.41 |
| Provision for doubtful accounts, including temporary protective reserve of \$35,000.00..... | 251,606.45 |
| Rents..... | 383,817.48 |
| Maintenance and repairs..... | 143,449.13 |
| Reserves — additions to: | |
| Alterations, improvement, development and advertising..... | 129,000.00 |
| | <u>22,574,015.65</u> |
| | \$ 1,152,517.83 |

Add:

| | |
|---|-------------------|
| Other income: | |
| Interest on securities..... | \$ 62,130.16 |
| Recovery of payment in 1937 to Jewel Employees Trust Fund under guarantee, less net loss on securities..... | 35,861.79 |
| Other miscellaneous income..... | 173,449.25 |
| | <u>271,441.20</u> |
| Net Earnings for the Year | \$ 1,423,959.03 |

| | |
|--|---------------------|
| Earned Surplus, January 1, 1938 | <u>2,618,478.67</u> |
| | \$ 4,042,437.70 |

Deduct:

| | |
|---|---------------------|
| Dividends on common stock (\$5.00 per share)..... | \$ 1,376,806.00 |
| Less adjustments arising from sale and distribution of common stock to employees..... | 36,780.28 |
| | <u>1,340,025.72</u> |

| | |
|--|------------------------|
| Earned Surplus, December 31, 1938 | <u>\$ 2,702,411.98</u> |
|--|------------------------|



TO THE BOARD OF DIRECTORS,
JEWEL TEA CO., INC.:

We have made an examination of the balance sheet of Jewel Tea Co., Inc. (a New York corporation) as at December 31, 1938 and of the income and surplus account for the year then ended. In connection therewith, we examined or tested the accounting records of the Company and other supporting evidence and obtained information and explanations from officers and employees of the Company; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying balance sheet and related income and surplus account fairly present, in accordance with accepted principles of accounting consistently maintained by the Company during the year under review, its financial position at December 31, 1938 and the results of its operations for the year then ended.

TOUCHE, NIVEN & CO.

Certified Public Accountants

Chicago, Illinois

January 28, 1939



TABLE OF COMPARATIVE SALES AND EARNINGS

| YEAR | SALES | EARNINGS | |
|------|--------------|------------|-------------------------------|
| | | AMOUNT | PER SHARE ON COMMON STOCK* |
| 1921 | \$11,210,388 | \$ 321,457 | \$1.15 |
| 1922 | 10,240,810 | 152,149 | .54 |
| 1923 | 12,554,875 | 624,200 | 2.23 |
| 1924 | 13,602,745 | 855,076 | 3.05 |
| 1925 | 14,178,478 | 838,947 | 3.00 |
| 1926 | 14,568,258 | 1,258,052 | 4.49 |
| 1927 | 14,532,336 | 1,261,391 | 4.50 |
| 1928 | 15,970,893 | 1,530,888 | 5.47 |
| 1929 | 16,844,110 | 1,691,302 | 6.04 |
| 1930 | 15,521,791 | 1,705,293 | 6.09 |
| 1931 | 13,742,691 | 1,363,780 | 4.87 |
| 1932 | 14,662,252 | 1,053,626 | 3.76 |
| 1933 | 14,377,593 | 909,325 | 3.25 |
| 1934 | 17,217,177 | 1,243,123 | 4.44 |
| 1935 | 18,804,498 | 1,536,186 | 5.49 |
| 1936 | 20,762,707 | 1,794,101 | 6.41 |
| 1937 | 23,277,441 | 1,452,120 | 5.19 |
| 1938 | 23,726,533 | 1,423,959 | 5.09 |

*Based on 280,000 shares.



The Jewel Car...
Symbol of Service
and Safe Driving



One Of 109 Clean, White,
Modern Jewel Food Stores
In Chicagoland

Dear Stockholder-

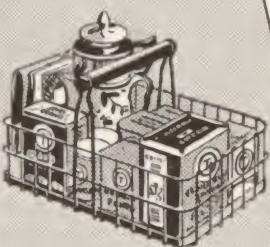
were Benefits of Jewel's 1938 sales
were shared by suppliers, customers,
stockholders, and employees.

Many Jewel stockholders are also
customers. If you do not trade the
Jewel Way, we invite you to join the
million customers who enjoy Jewel's
quality coffees, groceries and pre-
miums. You add vitality to your
investment when you recommend Jewel
to your friends.

Jewel prospers through the co-
operation of its family of customers,
stockholders, and workers. We look
forward to another year of friendly
relations and are grateful for your
loyal support in 1938.

*The Men and Women
of Jewel Tea Co., Inc.*

Hall China Coffee
Maker—One Of 60
Jewel Premiums



The Jewel Basket
Brings The Market
To Your Home

Quality Coffees and Groceries with Premiums

